

SAMPLE ACCRUAL COUNTY LANDFILL ASSOCIATION

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2006

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



**David A. Vaudt, CPA
Auditor of State**



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Fellow CPAs:

This sample report is presented by the Office of Auditor of State as required by Chapter 11.6 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client. This sample is prepared based on an Association providing solid waste services on the basis of an agreement between several municipalities and a county government, as provided for in Chapter 28E of the Code of Iowa.

Audits of landfill associations should be performed in accordance with U.S. generally accepted auditing standards, standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

References to Chapter 11 of the Code of Iowa in the Independent Auditor's Report (1) on the financial statements and (2) on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards are no longer required. We have determined the Chapter 11 audit requirements are met through the application of generally accepted auditing standards and Government Auditing Standards. This change does NOT affect the audit procedures to be applied in auditing compliance with the requirements of Chapter 11, such as review of internal control and testing of transactions for compliance. This only affects reporting.

This sample report has been prepared in conformity with U.S. generally accepted accounting principles and conforms to guidelines provided in Governmental Accounting and Financial Reporting Standards published by the Governmental Accounting Standards Board.

The format displays the basic financial statements, required supplementary information, and the Schedule of Findings which are necessary to meet the requirements of this office. The detail presented in the financial statements is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the entity feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

Entities with \$500,000 or more of federal expenditures are required to receive a Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Any questions concerning Single Audit requirements should be directed to the Association's cognizant or oversight agency.

In accordance with OMB Circular A-133, one copy of the reporting package and Data Collection Form shall be submitted within 30 days after issuance of the audit report to a central clearinghouse. The Data Collection Form is available by calling 1-800-253-0696 (Form number SF-SAC) or on the Federal Audit Clearinghouse (FAC) website at

<http://harvester.census.gov/sac/>. Auditees are encouraged to use the on-line Internet submission option available on the FAC website. Submission of the on-line Internet Form SF-SAC will require the user to submit a hard copy of the final form with the auditee and auditor signatures. Additional copies of the reporting package or notifications of audit should be submitted to the central clearinghouse or to grantor pass-through entities in accordance with the filing requirements of the Circular.

The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. Reporting packages should be submitted to:

Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132

One copy of the audit report should be filed with the Iowa Department of Natural Resources.

The findings on compliance, items (1) through (6), detail those items which are to be included regardless of whether there are instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported. An example of a finding for non-compliance with financial assurance requirements is included in the additional notes section.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

Reports, including any management letter(s) if issued separately, are to be filed with this office within nine months following the end of the fiscal year subject to audit. However, reports should be filed with this office upon release to the entity. The per diem audit billing (including fee, expenses and hours) should be submitted with the reports filed with our office.

Public access to reports issued by the Auditor of State and by CPA firms will be available through the internet. To allow this, you should submit an electronic copy of each FY2006 audit report, in PDF format, to our office in addition to the two paper copies submitted. The PDF files should be e-mailed to submitreports@auditor.state.ia.us. If you are unable to e-mail the file, you may mail a CD containing the PDF file to our office. You may direct any questions about submitting the electronic copy of the audit report to the above e-mail address.

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the local government for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the entity and a copy should be sent to this office with two copies of the audit report sent by the CPA firm. We will make a copy of the audit report and news release available to the news media in this office.

In accordance with Chapter 11 of the Code of Iowa, this office is to be notified immediately regarding any suspected embezzlement or theft.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to local governments and related entities. Together, we are able to provide a significant benefit to all taxpayers in the State.

DAVID A. VAUDT, CPA
Auditor of State

Sample Accrual County Landfill Association

Outline of Major Changes

- A. Included example footnote disclosure for transfer station closure costs in additional notes section.
- B. Deleted Official Depositories comment from the Schedule of Findings because the State Treasurer's Office has indicated a change in procedures.

Additional Notes

- 1. If the Association has deposits in credit unions at June 30, 2006, Note 2 should be modified to indicate whether the deposits were covered by federal depository insurance, collateralized with securities or letters of credit held by the Association or the Association's agent in the Association's name or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.
- 2. If the Association has not properly complied with Chapter 111.6(8) of the Iowa Administrative Code in demonstrating financial assurance for closure and postclosure care costs, then the schedule of findings should include a finding, such as:

Financial Assurance – The Association has not demonstrated financial assurance for closure and postclosure care costs as required by Chapter 111.6(8) of the Iowa Administrative Code. The calculation is made as follows:

| | Closure | Postclosure |
|---|------------|-------------|
| Total estimated costs for closure and postclosure care | \$ 384,332 | 466,500 |
| Less: Balance of funds held in the local dedicated fund at June 30, 2005 | (308,000) | (213,059) |
| | 76,332 | 253,441 |
| Divided by the number of years remaining in the pay-in period | ÷ 2 | 2 |
| Required payment into the local dedicated fund for the year ended June 30, 2006 | 38,166 | 126,721 |
| Balance of funds held in the local dedicated fund at June 30, 2005 | 308,000 | 213,059 |
| Required balance of funds to be held in the local dedicated fund at June 30, 2006 | \$ 346,166 | 339,780 |
| Amount Association has restricted for closure and postclosure care at June 30, 2006 | \$ 345,000 | 340,000 |

Recommendation – The Association should demonstrate financial assurance by designating amounts sufficient to comply with the Iowa Administrative Code requirements.

3. For Landfills with an early retirement or other benefit plan or policy that meets the definition of a “termination benefit” as defined by GASB Statement 47, see the “Additional Notes” section of the Sample Community School District sample report for an example footnote disclosure.
4. If the Landfill Commission operates a transfer station, disclosure of the closure care costs should be included in the notes to the financial statements. Following is an example footnote for transfer station closure care.

Transfer Station Closure Care

To comply with state regulations, the Commission is required to complete a closure plan detailing how the transfer station will comply with proper disposal of all solid waste and litter at the site, cleaning the transfer station building, including the rinsing of all surfaces that have come in contact with solid waste or washwater, cleaning of all solid waste transport vehicles that will remain on site, including the rinsing of all surfaces that have come in contact with solid waste, and the removal and proper management of all washwater in the washwater management system.

To comply with state regulations, the Commission is required to maintain a closure account as financial assurance for the closure care costs. The effect of the state requirement is to commit landfill owners to perform certain closing functions as a condition for the right to operate the transfer station in the current period.

The total closure care costs for the Commission as of June 30, 2006 have been estimated at \$9,830. The balance has been restricted and is fully funded at June 30, 2006.



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NEWS RELEASE

Contact:

FOR RELEASE _____

Auditor of State David A. Vaudt today released an audit report on the Sample Accrual County Landfill Association.

The Association had total revenues of \$_____ for the year ended June 30, 2006, which included gate fees of \$_____ and County and City assessments of \$_____.

Expenses totaled \$_____, a(n) ____ percent increase (decrease) from the prior year, and included \$_____ for _____ a _____, \$_____ for _____ b _____, and \$_____ for _____ c _____. (a,b,c – the three highest expense totals) The significant increase (decrease) in receipts and disbursements is due primarily to _____.

A copy of the audit report is available for review in the Sample Accrual County Landfill Association's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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SAMPLE ACCRUAL COUNTY LANDFILL ASSOCIATION

**INDEPENDENT AUDITOR'S REPORTS
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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2006

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Sample Accrual County Landfill Association

Officials

| <u>Name</u> | <u>Title</u> | <u>Representing</u> |
|-------------------|------------------|------------------------|
| Dwight Lewis | Chairperson | Sample Accrual County |
| Susan Greene | Vice-Chairperson | City of Big Bluffs |
| Carroll Jensen | Member | City of Cloudy Springs |
| Jacob McCoy | Member | City of Northdale |
| Glen Schmitz | Member | City of Coolville |
| Leon Collins | Member | City of Park Lake |
| Jay Bird | Member | City of Harrisburg |
| Martin Wright | Member | City of River Falls |
| Eileen Johnson | Member | City of Blakestown |
| Jennifer Fiddelke | Member | City of Round Lake |
| Jesse Miller | Member | City of Jackson |
| David Stewart | Member | City of Green Valley |
| Richard Carson | Manager | |
| Judy Clark | Secretary | |

Sample Accrual County Landfill Association



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Independent Auditor's Report

To the Members of Sample Accrual
County Landfill Association:

We have audited the accompanying financial statements of Sample Accrual County Landfill Association as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Accrual County Landfill Association at June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2006 on our consideration of Sample Accrual County Landfill Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 7 through 11 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

September 20, 2006

DAVID A. VAUDT, CPA
Auditor of State

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sample Accrual County Landfill Association provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30 2006. We encourage readers to consider this information in conjunction with the Association's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- ◆ The Association's operating revenues increased 19%, or \$97,421, from fiscal 2005 to fiscal 2006. Gate fees and County and City assessments increased and other revenues decreased.
- ◆ The Association's operating expenses were 6%, or \$24,841, more in fiscal 2006 than in fiscal 2005.
- ◆ The Association's net assets increased 30%, or \$189,235, from June 30, 2005 to June 30, 2006.

USING THIS ANNUAL REPORT

The Sample Accrual County Landfill Association is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to Sample Accrual County Landfill Association's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Association's financial activities.

The Statement of Net Assets presents information on the Association's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Association is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Association's operating revenues and expenses, non-operating revenues and expenses and whether the Association's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Association's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Association financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE ASSOCIATION

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Association's financial position. The Association's net assets at the end of fiscal 2006 totaled approximately \$825,000. This compares to approximately \$636,000 at the end of fiscal 2005. A summary of the Association's net assets is presented below.

| Net Assets | | |
|---|------------|-----------|
| | June 30, | |
| | 2006 | 2005 |
| Current assets | \$ 683,780 | 616,393 |
| Restricted investments | 690,000 | 575,000 |
| Capital assets at cost, less accumulated depreciation | 181,850 | 185,695 |
| Total assets | 1,555,630 | 1,377,088 |
| Current liabilities | 46,945 | 167,427 |
| Noncurrent liabilities | 683,199 | 573,410 |
| Total liabilities | 730,144 | 740,837 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 116,499 | 120,113 |
| Restricted | 55,273 | 16,590 |
| Unrestricted | 653,714 | 499,548 |
| Total net assets | \$ 825,486 | 636,251 |

The largest portion of the Association's net assets (80%) is unrestricted and may be used to meet the Association's obligations as they come due. A portion of the Association's net assets (7%) is restricted for closure and postclosure care and for tonnage fees due to the State of Iowa. State and federal laws and regulations require the Association to place a final cover on the landfill sites and perform certain maintenance and monitoring functions at the landfill sites for a minimum of thirty years after closure. The invested in capital assets (14%, e.g., land, buildings and equipment), less the related debt portion of net asset are resources allocated to capital assets.

Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues are received for gate fees from accepting solid waste and assessments from the residents of the County. Operating expenses are expenses paid to operate the landfill. Non-operating revenues and expenses are for interest income and interest expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the years ended June 30, 2006 and 2005 is presented below:

| Changes in Net Assets | | |
|---|---------------------|---------|
| | Year ended June 30, | |
| | 2006 | 2005 |
| Operating revenues: | | |
| Gate fees | \$ 483,148 | 394,312 |
| County and city assessments | 122,040 | 101,318 |
| Other operating revenues | 4,974 | 17,275 |
| Total operating revenue | 610,162 | 512,905 |
| Operating expenses: | | |
| Salaries | 45,904 | 45,275 |
| Employee benefits | 32,765 | 32,612 |
| Machinery maintenance, labor and parts | 15,812 | 13,917 |
| Oil and gas | 7,102 | 7,009 |
| Long range planning and engineering | 39,125 | 38,742 |
| Site maintenance | 6,084 | 6,000 |
| Site utilities | 3,952 | 3,903 |
| Office expenses | 4,155 | 5,022 |
| Training and travel | 382 | 312 |
| Legal and accounting | 3,250 | 3,250 |
| Insurance | 21,593 | 20,975 |
| Closure and postclosure care costs | 185,636 | 165,750 |
| Planning and recycling expenses | 1,600 | 1,600 |
| Iowa Department of Natural Resources tonnage fees | 33,815 | 30,912 |
| Depreciation | 25,746 | 26,111 |
| Non-capitalized equipment | 6,183 | 5,932 |
| Sales tax | 2,863 | 2,700 |
| Miscellaneous | 2,897 | 4,001 |
| Total operating expenses | 438,864 | 414,023 |
| Operating income | 171,298 | 98,718 |
| Non-operating revenues (expenses): | | |
| Interest income | 22,721 | 17,300 |
| Interest expense | (4,784) | (6,238) |
| Net non-operating revenue | 17,937 | 11,062 |
| Increase in net assets | 189,235 | 109,780 |
| Net assets beginning of year | 636,251 | 526,471 |
| Net assets end of year | \$ 825,486 | 636,251 |

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the fiscal year.

In fiscal 2006, operating revenues increased by \$97,257, or 19%, primarily a result of gate fees increasing by approximately \$89,000 due to an increase in the volume of collections. Operating expenses increased by \$24,841, or 6%. The increase was primarily a result of estimated closure and postclosure care costs increasing by approximately \$20,000.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes gate fees and assessments reduced by payments to employees and to suppliers. Cash used from capital and related financing activities includes lease payments and the purchase of capital assets. Cash used by investing activities includes purchase of certificates of deposits and interest income.

CAPITAL ASSETS

At June 30, 2006, the Association had approximately \$182,000 invested in capital assets, net of accumulated depreciation of approximately \$252,000. Depreciation charges totaled \$25,746 for fiscal 2006. More detailed information about the Association's capital assets is presented in Note 4 to the financial statements.

LONG-TERM DEBT

At June 30, 2006, the Association had \$715,078 in debt outstanding, an increase of \$110,793 from 2005. The table below summarizes outstanding debt by type.

| | June 30, | |
|-----------------------------------|-------------------|----------------|
| | 2006 | 2005 |
| Capital lease purchase agreement | \$ 65,351 | 96,226 |
| Closure and postclosure care cost | 649,727 | 508,059 |
| Total | <u>\$ 715,078</u> | <u>604,285</u> |

Additional information about the Association's long-term debt is presented in Notes 5 and 6 to the financial statements.

ECONOMIC FACTORS

Sample Accrual County Landfill Association continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for Association officials. Some of the realities that may potentially become challenges for the Association to meet are:

- ◆ Facilities at the Association require constant maintenance and upkeep.
- ◆ Technology continues to expand and current technology becomes outdated presenting an on going challenge to maintain up to date technology at a reasonable cost.
- ◆ Annual deposits required to be made to closure and postclosure accounts are based on constantly changing cost estimates and the number of tons of solid waste received at the facility.

The Association anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Association's ability to react to unknown issues.

CONTACTING THE ASSOCIATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Association's finances and to show the Association's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sample Accrual County Landfill Association, P.O. Box 123 Main Street, Anywhere, Iowa 50000.

Basic Financial Statements

Sample Accrual County Landfill Association

Statement of Net Assets

June 30, 2006

Assets

Current assets:

| | |
|---------------------------|----------------|
| Cash and cash equivalents | \$ 206,533 |
| Investments | 417,758 |
| Receivables: | |
| Accounts | 46,933 |
| Accrued interest | 9,639 |
| Prepaid insurance | 2,917 |
| Total current assets | <u>683,780</u> |

Noncurrent assets:

| | |
|--|----------------|
| Restricted investments | 690,000 |
| Capital assets (net of accumulated depreciation) | <u>181,850</u> |
| Total noncurrent assets | <u>871,850</u> |

Total assets1,555,630**Liabilities**

Current liabilities:

| | |
|--|---------------|
| Accounts payable | 11,177 |
| Salaries and benefits payable | 3,067 |
| Current portion of capital lease payable | 31,879 |
| Compensated absences | 822 |
| Total current liabilities | <u>46,945</u> |

Noncurrent liabilities:

| | |
|---|----------------|
| Capital lease payable | 33,472 |
| Landfill closure and postclosure care costs | <u>649,727</u> |
| Total noncurrent liabilities | <u>683,199</u> |

Total liabilities730,144**Net assets**

| | |
|---|---------|
| Invested in capital assets, net of related debt | 116,499 |
|---|---------|

Restricted for:

| | |
|------------------------------|----------------|
| Tonnage fees retained | 15,000 |
| Closure and postclosure care | 40,273 |
| Unrestricted | <u>653,714</u> |

Total net assets\$ 825,486

See notes to financial statements.

Sample Accrual County Landfill Association

Statement of Revenues, Expenses and
Changes in Net Assets

Year ended June 30, 2006

| | |
|---|-------------------|
| Operating revenues: | |
| Gate fees | \$ 483,148 |
| County and city assessments | 122,040 |
| Other operating revenues | 4,974 |
| Total operating revenues | <u>610,162</u> |
| Operating expenses: | |
| Salaries | 45,904 |
| Employee benefits | 32,765 |
| Machinery maintenance, labor and parts | 15,812 |
| Oil and gas | 7,102 |
| Long range planning and engineering | 39,125 |
| Site maintenance | 6,084 |
| Site utilities | 3,952 |
| Office expenses | 4,155 |
| Training and travel | 382 |
| Legal and accounting | 3,250 |
| Insurance | 21,593 |
| Closure and postclosure care costs | 185,636 |
| Planning and recycling expenses | 1,600 |
| Iowa Department of Natural Resources tonnage fees | 33,815 |
| Depreciation | 25,746 |
| Non-capitalized equipment | 6,183 |
| Sales tax | 2,863 |
| Miscellaneous | 2,897 |
| Total operating expenses | <u>438,864</u> |
| Operating income | <u>171,298</u> |
| Non-operating revenues (expenses): | |
| Interest income | 22,721 |
| Interest expense | (4,784) |
| Net non-operating revenues | <u>17,937</u> |
| Change in net assets | 189,235 |
| Net assets beginning of year | <u>636,251</u> |
| Net assets end of year | <u>\$ 825,486</u> |

See notes to financial statements.

Sample Accrual County Landfill Association

Statement of Cash Flows

Year ended June 30, 2006

| | |
|---|--------------------------|
| Cash flows from operating activities: | |
| Cash received from gate fees | \$ 475,989 |
| Cash received from assessments | 122,040 |
| Cash received from other operating receipts | 4,974 |
| Cash paid to suppliers for goods and services | (160,286) |
| Cash paid to employees for services | (77,305) |
| Net cash provided by operating activities | <u>365,412</u> |
| Cash flows from capital and related financing activities: | |
| Principal paid on capital lease | (30,361) |
| Interest paid on capital lease | (4,784) |
| Purchase of capital assets | (25,291) |
| Net cash used by capital and related financing activities | <u>(60,436)</u> |
| Cash flows from investing activities: | |
| Purchase of certificates of deposit | (597,011) |
| Interest received | 13,082 |
| Net cash used by investing activities | <u>(583,929)</u> |
| Net decrease in cash and cash equivalents | (278,953) |
| Cash and cash equivalents beginning of year | <u>485,486</u> |
| Cash and cash equivalents end of year | <u><u>\$ 206,533</u></u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | <u>\$ 171,298</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 25,746 |
| Closure and postclosure costs | 185,636 |
| Changes in assets and liabilities: | |
| (Increase) in accounts receivable | (7,156) |
| Decrease in prepaid insurance | 654 |
| (Decrease) in accounts payable | (9,980) |
| (Decrease) in salary and benefits payable | (713) |
| (Decrease) in compensated absences | (73) |
| Total adjustments | <u>194,114</u> |
| Net cash provided by operating activities | <u><u>\$ 365,412</u></u> |

See notes to financial statements.

Sample Accrual County Landfill Association

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Sample Accrual County Landfill Association was formed in 1983 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Association is to operate the sanitary landfill in Sample Accrual County for use by all residents of the County.

The Association is composed of one representative from each of the eleven member cities and one representative from Sample Accrual County. The member cities are: Big Bluffs, Cloudy Springs, Northdale, Coolville, Park Lake, Harrisburg, River Falls, Blakestown, Round Lake, Jackson and Green Valley. Each member is entitled to one vote for each 1,500 people or fraction thereof as determined by the most recent general Federal Census.

The Association's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Sample Accrual County Landfill Association has included all funds, organizations, agencies, boards, commissions and authorities. The Association has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Association are such that exclusion would cause the Association's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Association to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Association. Sample Accrual County Landfill Association has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of Sample Accrual County Landfill Association are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Association applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Association distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Association's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Net Investments

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents – The Association considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2006 include certificates of deposit of \$1,107,758.

Restricted Investments – Funds set aside for payment of closure and postclosure care costs are classified as restricted.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Association as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class | Amount |
|----------------------------|-----------|
| Buildings and improvements | \$ 25,000 |
| Equipment and vehicles | 5,000 |

Capital assets of the Association are depreciated using the straight line method over the following estimated useful lives:

| Asset Class | Estimated Useful lives (In Years) |
|------------------------|-----------------------------------|
| Buildings | 40-50 |
| Building improvements | 20-50 |
| Equipment and vehicles | 2-20 |

Interest is capitalized on qualified assets acquired with certain tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There were no qualifying assets acquired during the year ended June 30, 2006.

Compensated Absences – Association employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Association's liability for accumulated vacation has been computed based on rates of pay in effect at June 30, 2006.

(2) Cash and Investments

The Association's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The Association is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Association; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Association had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Pension and Retirement Benefits

The Association contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Association is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The Association's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$3,549, \$3,440 and \$3,989, respectively, equal to the required contributions for each year.

(4) Capital Assets

A summary of capital assets at June 30, 2006 is as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|---|---------------------------------|-----------|-----------|---------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 47,159 | - | - | 47,159 |
| Capital assets, being depreciated: | | | | |
| Buildings | 36,240 | - | - | 36,240 |
| Furniture and equipment | 341,040 | 25,291 | (15,890) | 350,441 |
| Total capital assets being depreciated | 377,280 | 25,291 | (15,890) | 386,681 |
| Less accumulated depreciation for: | | | | |
| Buildings | 17,214 | 906 | - | 18,120 |
| Equipment and vehicles | 221,530 | 24,840 | (12,500) | 233,870 |
| Total accumulated depreciation | 238,744 | 25,746 | (12,500) | 251,990 |
| Total capital assets being depreciated, net | 138,536 | (455) | (3,390) | 134,691 |
| Capital assets, net | \$ 185,695 | (455) | (3,390) | 181,850 |

Equipment costing \$130,857 was purchased under a capital lease agreement. Accumulated depreciation on this equipment totals \$32,714, including \$18,694 of depreciation for the year ended June 30, 2006.

(5) Leases

The land used by the Association for its landfill site was leased from Sample Accrual County beginning January 1, 1990 for a one time fee of one dollar for a period of twenty years. The lease has been extended for a period of ten years from the original date of issuance.

The Association entered into a capital lease agreement to lease a John Deere scraper. The agreement is for a period of 4 years at an interest rate of 5% and expires in fiscal year 2008. The following is a schedule by year of future minimum lease payments and the present value of net minimum lease payments:

| Year Ending June 30, | Present Value of Net Minimum Lease Payments | Amount Representing Interest | Total Minimum Lease Payments |
|----------------------------|---|------------------------------------|------------------------------------|
| 2007 | \$ 31,879 | 3,266 | 35,145 |
| 2008 | 33,472 | 1,673 | 35,145 |
| Total | \$ 65,351 | 4,939 | 70,290 |

Payments under this agreement for the year ended June 30, 2006 totaled \$35,145.

(6) Closure and Postclosure Care Costs

To comply with federal and state regulations, the Association is required to complete a monitoring system plan and a closure/postclosure plan and to provide funding necessary to effect closure and postclosure, including the proper monitoring and care of the landfill after closure. Environmental Protection Agency (EPA) requirements have established closure and thirty-year postclosure care requirements for all municipal solid waste landfills that receive waste after October 9, 1993. State governments are primarily responsible for implementation and enforcement of those requirements and have been given flexibility to tailor requirements to accommodate local conditions that exist. The effect of the EPA requirement is to commit landfill owners to perform certain closing functions and postclosure monitoring functions as a condition for the right to operate the landfill in the current period. The EPA requirements provide that when a landfill stops accepting waste, it must be covered with a minimum of twenty-four inches of earth to keep liquid away from the buried waste. Once the landfill is closed, the owner is responsible for maintaining the final cover, monitoring ground water and methane gas, and collecting and treating leachate (the liquid that drains out of waste) for thirty years.

Governmental Accounting Standards Board Statement No. 18 requires landfill owners to estimate total landfill closure and postclosure care costs and recognize a portion of these costs each year based on the percentage of estimated total landfill capacity used that period. Estimated total cost consists of four components: (1) the cost of equipment and facilities used in postclosure monitoring and care, (2) the cost of final cover (material and labor), (3) the cost of monitoring the landfill during the postclosure period and (4) the cost of any environmental cleanup required after closure. Estimated total cost is based on the cost to purchase those services and equipment currently and is required to be updated annually for changes due to inflation or deflation, technology, or applicable laws or regulations.

These costs for the Sample Accrual County Landfill Association have been estimated at \$384,332 for closure and \$466,500 for postclosure, for a total of \$850,832 as of June 30, 2006, and the portion of the liability that has been recognized is \$649,727. These amounts are based on what it would cost to perform all closure and postclosure care during the year ended June 30, 2006. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The estimated remaining life of the landfill is 10 years and the capacity used at June 30, 2006 is 76 percent.

Chapter 455B.306(8)(b) of the Code of Iowa requires permit holders of municipal solid waste landfills to maintain separate closure and postclosure care accounts to accumulate resources for the payment of closure and postclosure care costs. The Association has begun accumulating resources to fund these costs and, at June 30, 2006, assets of \$690,000 are restricted for these purposes, of which \$350,000 is for closure and \$340,000 is for postclosure care. They are reported as restricted investments on the Statement of Net Assets.

Also, pursuant to Chapter 567-111.3(3) of the Iowa Administrative Code (IAC), since the estimated closure and postclosure care costs are not fully funded, the Association is required to demonstrate financial assurance for the unfunded costs. The Association has adopted the dedicated fund mechanism.

Chapter 567-111.8(7) of the IAC allows the Association to choose the dedicated fund mechanism to demonstrate financial assurance and use the accounts established to satisfy the closure and postclosure care account requirements. Accordingly, the Association is not required to establish closure and post closure care accounts in addition to the accounts established to comply with the dedicated fund financial assurance mechanism.

(7) Solid Waste Tonnage Fees Retained

The Association has established an account for restricting and using solid waste tonnage fees retained by the Association in accordance with Chapter 455B.310 of the Code of Iowa.

At June 30, 2006, the unspent amounts retained by the Association and restricted for the required purposes totaled \$15,000.

(8) Risk Management

The Association is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Association assumes liability for any deductibles and claims in excess of coverage limitations.

**Independent Auditor's Report on
Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

Sample Accrual County Landfill Association



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on
Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Members of Sample Accrual
County Landfill Association:

We have audited the accompanying financial statements of Sample Accrual County Landfill Association as of and for the year ended June 30, 2006, and have issued our report thereon dated September 20, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sample Accrual County Landfill Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Sample Accrual County Landfill Association's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (C) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sample Accrual County Landfill Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Association's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Association. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the members and customers of Sample Accrual County Landfill Association and other parties to whom the Association may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample Accrual County Landfill Association during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 20, 2006

DAVID A. VAUDT, CPA
Auditor of State

Sample Accrual County Landfill Association

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties, which are incompatible. One person has control over each of the following areas for the Association:

- (1) Accounting system – record keeping for revenues, expenses and related reporting.
- (2) Receipts – collecting, depositing, journalizing and posting.
- (3) Payroll – changes to master list, preparation and distribution.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Association should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Due to the limited number of office employees, segregation of duties is very difficult. However, we will have the manager review receipts, posting and payroll on a test basis.

Conclusion – Response accepted.

- (B) Disbursements – Certain invoices were not properly marked “paid” to help prevent possible duplicate payment of invoices.

Recommendation – All paid invoices should be marked or stamped “paid” with the date of payment to aid in preventing possible duplicate payment of invoices.

Response – Invoices will all be marked paid.

Conclusion – Response accepted.

- (C) Reconciliation of Billings, Collections and Delinquencies – Billings, collections and delinquent accounts were not reconciled each month.

Recommendation – Procedures should be established to reconcile customer billings, collections and delinquencies monthly. The Association should review the reconciliation, monitor delinquencies and approve write-offs of uncollectible accounts.

Response – A monthly reconciliation will be prepared and reviewed by the Association. Delinquent accounts will be reviewed and write-offs of uncollectible accounts will be approved.

Conclusion – Response accepted.

Sample Accrual County Landfill Association

Schedule of Findings

Year ended June 30, 2006

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Other Findings Related to Required Statutory Reporting:

- (1) Questionable Expenses – No expenses we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (2) Travel Expense – No expenditures of money for travel expenses of spouses of Association officials or employees were noted.
- (3) Board Minutes – No transactions were found that we believe should have been approved in the Association minutes but were not. However, the minutes did not always indicate the vote of each member present.

Recommendation – The Association should ensure the minutes indicate the vote of each member as required by Chapter 21 of the Code of Iowa.

Response – This recommendation will be followed at future board meetings.

Conclusion – Response accepted.

- (4) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted, except as follows:

The Association has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The Association should adopt a written investment policy to comply with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – On October 12, 2006, the Association adopted a written investment policy as required.

Conclusion – Response accepted.

- (5) Solid Waste Tonnage Fees Retained – During the year ended June 30, 2006, the Association used or retained the solid waste fees in accordance with Chapter 455B.310 of the Code of Iowa.
- (6) Financial Assurance – The Association has demonstrated financial assurance for closure and postclosure care costs by establishing a local government dedicated fund as provided in Chapter 111.6(8) of the Iowa Administrative Code. The calculation is made as follows:

Sample Accrual County Landfill Association

Schedule of Findings

Year ended June 30, 2006

| | Closure | Postclosure |
|---|------------|-------------|
| Total estimated costs for closure and postclosure care | \$ 384,332 | 466,500 |
| Less: Balance of funds held in the local dedicated fund at June 30, 2005 | (308,000) | (213,059) |
| | 76,332 | 253,441 |
| Divided by the number of years remaining in the pay-in period | ÷ 2 | 2 |
| Required payment into the local dedicated fund for the year ended June 30, 2006 | 38,166 | 126,721 |
| Balance of funds held in the local dedicated fund at June 30, 2005 | 308,000 | 213,059 |
| Required balance of funds to be held in the local dedicated fund at June 30, 2006 | \$ 346,166 | 339,780 |
| Amount Association has restricted for closure and postclosure care at June 30, 2006 | \$ 350,000 | 340,000 |

Sample Accrual County Landfill Association

Staff

This audit was performed by:

John Q. Reviewer, CPA, Manager
Jerome Warning, CPA, Senior Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State